

## SUMMARY

Indirect costs are applicable to the entire business base of the contractor and are to a great extent discretionary in nature. Issues that affect indirect or overhead costs present problems that reoccur each fiscal year. The contractor has the responsibility to manage these very significant costs. How the contractor classifies its costs—direct or indirect—is entirely up to it and are unique to the company. But the contractor is required to have a management control system in place to effectively manage these costs. Defense contractors have been very concerned about high overhead costs due to the declining business base and have undertaken special projects to address the problem. For competitive reasons, they have made large-scale efforts to reduce indirect and overhead costs.

The role of the government is to monitor rather than to manage indirect cost. Clearly, the government has the necessary capability in place to adequately monitor contractors' indirect costs. If the system works as it is designed to and all team members including the program offices perform their functions, the government program manager should not be surprised by any large financial impacts due to the application of indirect rates to the direct costs for his program. The developmental nature and tremendous risks involved in DoD work often dictate a need to perform the work on a contractual basis that is flexibly priced. Experiences with major programs (such as the recent A-12 aircraft program) have shown that significant problems often arise when attempts are made to perform the work on a fixed-price basis. When it is necessary to perform work on a negotiated basis, the government assumes greater risk and must work closely with contractors to ensure that indirect costs are aggressively controlled.